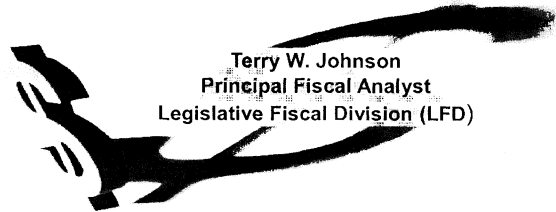




General Fund Revenue Update 2013 Biennium



**Terry W. Johnson
Principal Fiscal Analyst
Legislative Fiscal Division (LFD)**

February 17, 2012

**A report to the
Revenue and Transportation Interim Committee**



1



Legislative Fiscal Division



Presentation Outline

- **Current Revenue Trends**
- **Discussion of Selected Tax Sources**
- **2013 Biennium Ending Fund Balance**
- **Summary**



2

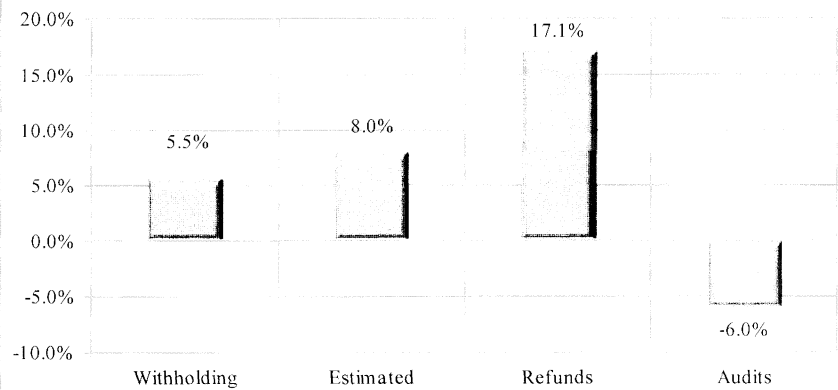
Fiscal 2012 To Date Summary General Fund Revenue Comparison

▪ Through January FY 2011	\$ 1,009.9 M
▪ Through January FY 2012	\$ 1,080.7 M
▪ Current Change and Rate (7 months)	\$ 70.8 M 7.01%
▪ HJ 2* Growth and Rate (Full Year)	\$ 3.1 M 0.17%

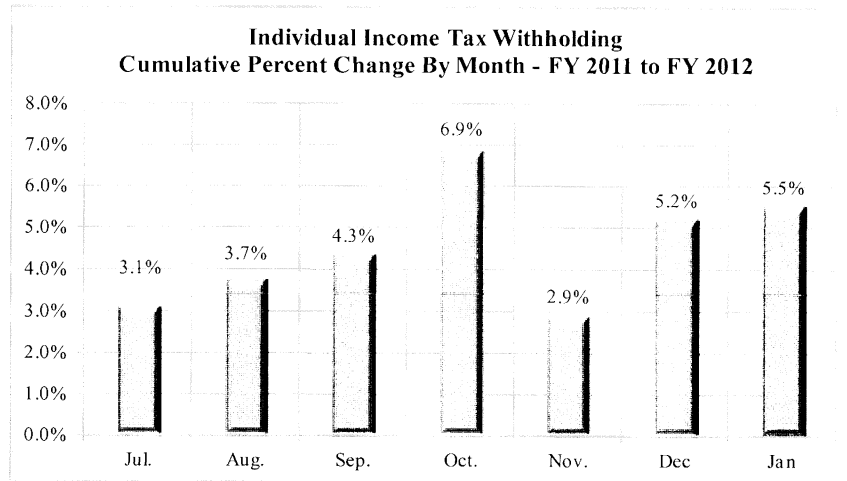
* Legislature's Revenue Estimating Resolution

Individual Income Tax Snapshot

Individual Income Tax Statistics
Through January- FY 2011 vs FY 2012

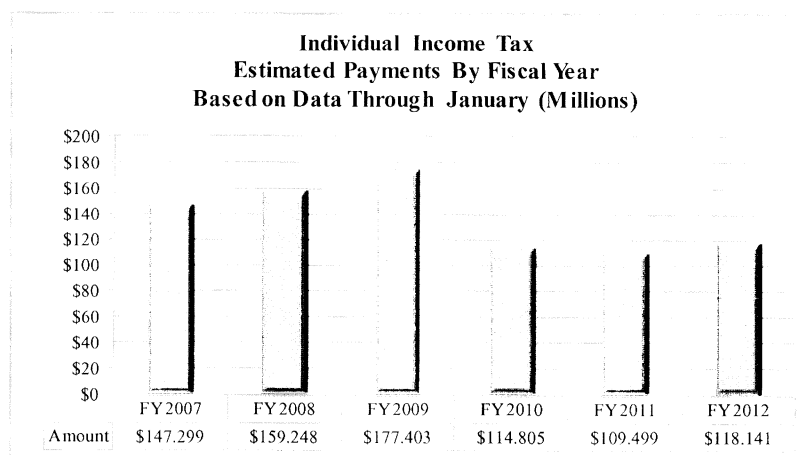


What Are Withholding Tax Trends?



5

What Are Estimated Payment Trends?



6

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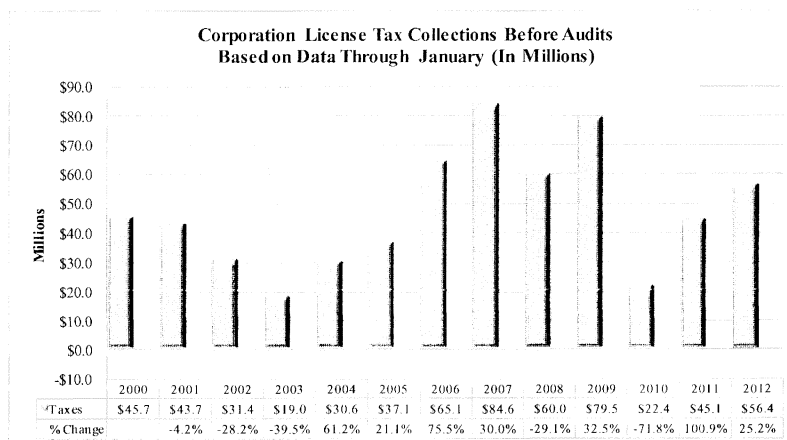
Individual Income Tax

Individual Income Tax Comparison				
Revenue Code & Description	1/31/2011 Fiscal 2011	1/31/2012 Fiscal 2012	Difference	Percent Change
510101 Withholding Tax	379,345,769.94	400,220,098.38	20,874,328.44	5.50%
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510106 Income Tax Refunds	54,828,916.29	64,208,269.46	9,379,353.17	17.11%
Income Tax Refunds Adjustment	0.00	0.00	0.00	0.00%
Totals	\$573,979,153.67	\$620,492,075.39	\$46,512,921.72	8.10%
Percent of Actual/Estimated	70.33%	76.67%		

7

Legislative Fiscal Division

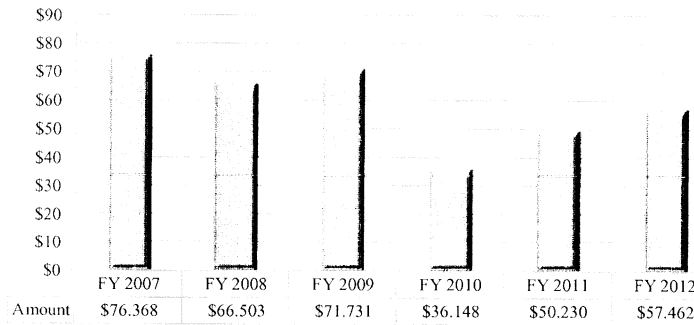
Underlying Corporate Tax Growth



8

What are Estimated Payment Trends ?

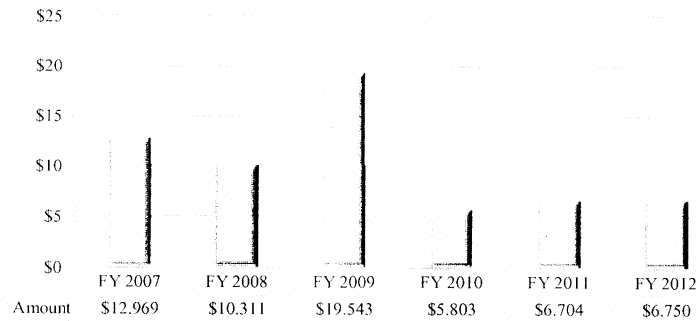
**Corporation License Tax
Estimated Payments By Fiscal Year
Based on Data Through January (Millions)**



9

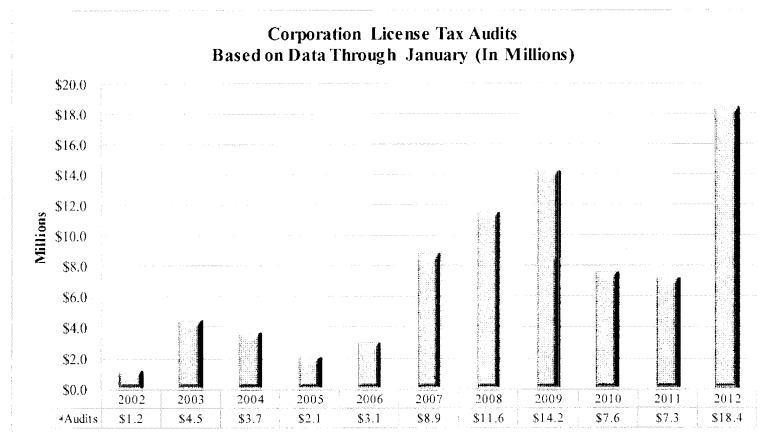
What are Current Year Payment Trends ?

**Corporation License Tax
Current Year Payments By Fiscal Year
Based on Data Through January (Millions)**



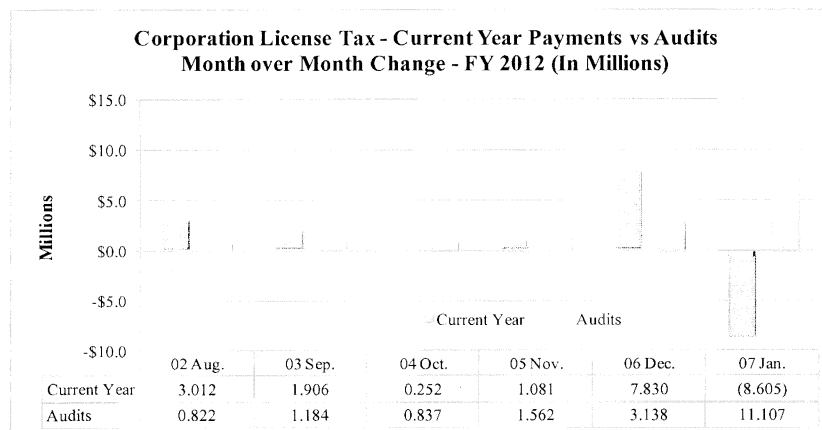
10

Record Audit Activity - So Far



11

DOR Audit Processing



12

Legislative Fiscal Division

Corporation License Tax

Corporation License Tax Comparison

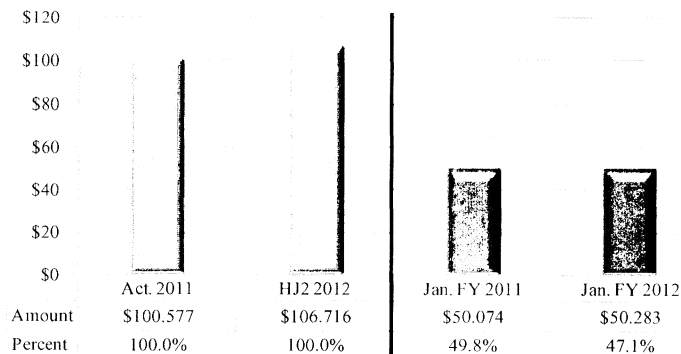
Revenue Code & Description	1/31/2011 Fiscal 2011	1/31/2012 Fiscal 2012	Difference	Percent Change
510501 Corporation Tax	6,703,850.37	6,750,278.49	46,428.12	0.69%
510505 Corporation Tax Estimated Paym	50,230,089.04	57,462,247.11	7,232,158.07	14.40%
510502 Corporation Tax Refunds	(11,849,832.41)	(7,988,001.22)	3,861,831.19	-32.59%
510503 Corporation Tax-Audit Collect.	7,269,186.00	18,650,153.00	11,380,967.00	156.56%
Corporation Tax Refunds Adjustment	0.00	0.00	0.00	0.00%
Totals	\$52,353,293.00	\$74,874,677.38	\$22,521,384.38	43.02%
Percent of Actual/Estimated	43.98%	65.06%		

13

Legislative Fiscal Division

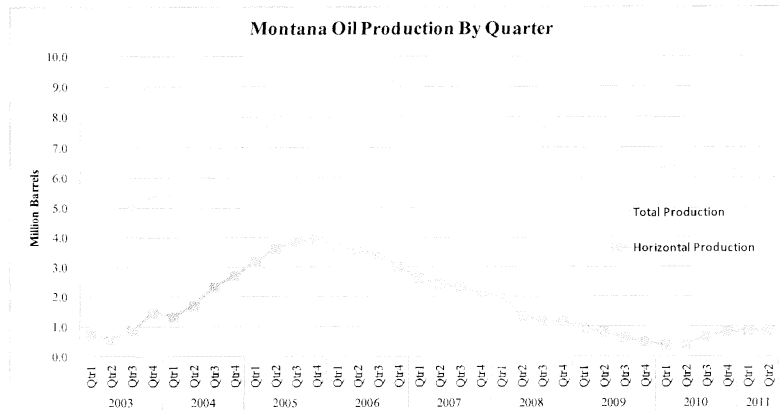
Vehicle Fees/Taxes Are Flat

General Fund Vehicle Fees/Taxes
Through January FY 2011 vs FY 2012 (In Millions)



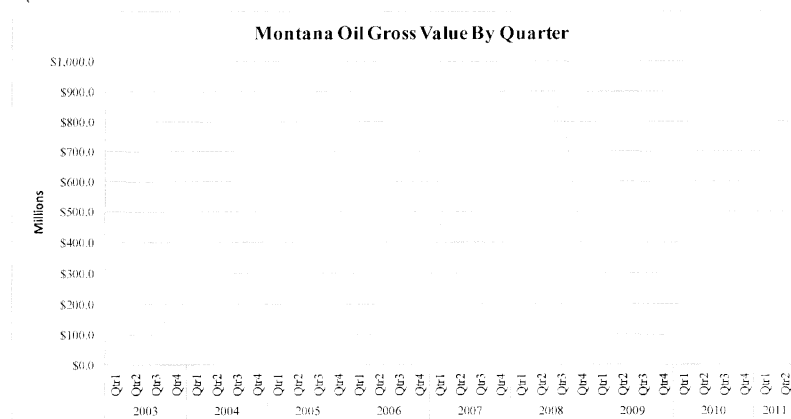
14

The Oil Slide May be Ending



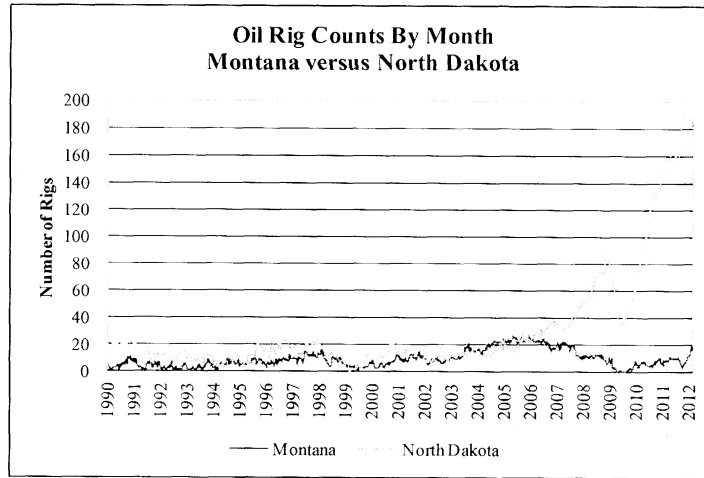
15

Oil Prices Keep Total Value Increasing



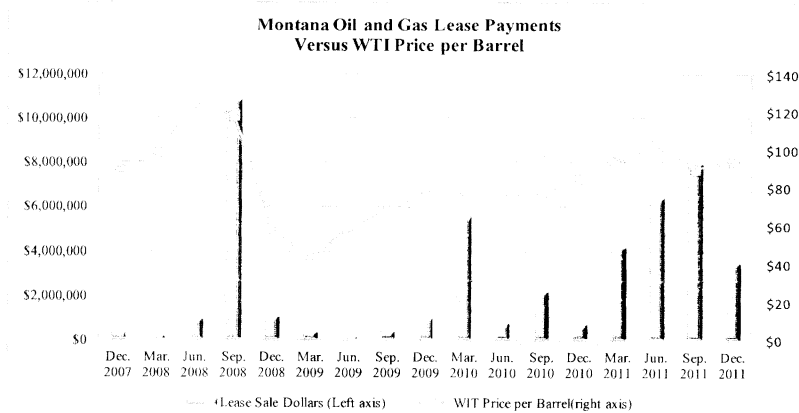
16

Oil Rig Counts Show Uptick



17

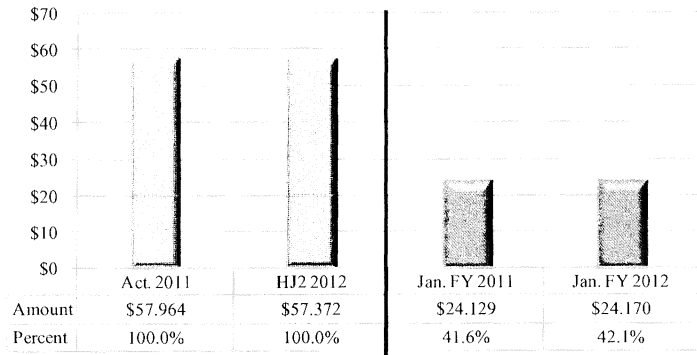
Does Price Impact Lease Payments ?



18

Insurance Taxes Are Flat

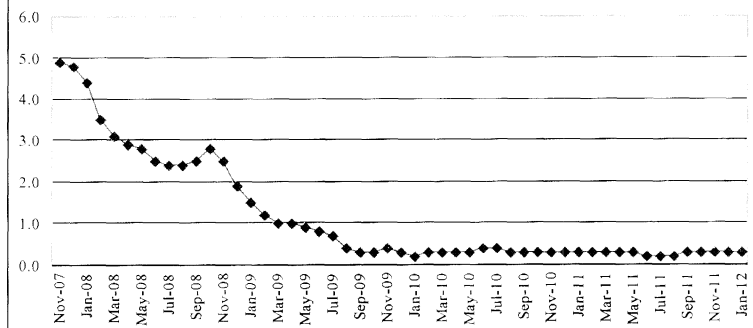
**General Fund Insurance Tax
Through January FY 2011 vs FY 2012 (In Millions)**



19

Interest Rates Continue at All Time Lows

Short-Term Investment Pool Rates

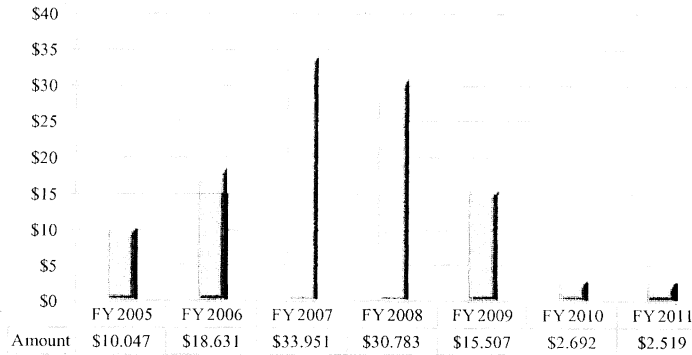


20

Legislative Fiscal Division

Impact of Low Interest Rates

Treasury Cash Account Interest Earnings
By Fiscal Year (In Millions)



21

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Changes Discussed in December

2013 Biennium General Fund Revenue Estimates
Anticipated Revenue Adjustments - In Millions

Tax Source	FY 2012 HJ2 Estimate	% of Total	Adjustment FY 2012	Adjustment FY 2013	Adjustment 2013 Biennium
1 Individual Income Tax	\$809,322	45.3%	\$56,861	\$60,411	\$117,272
2 Property Tax	237,188	13.3%	No Chg.	No Chg.	No Chg.
3 Corporation License Tax	115,086	6.5%	15,079	16,777	31,856
4 Vehicle Fee/Tax	106,716	6.0%	(7,775)	(7,807)	(15,582)
5 Oil & Gas Production Tax	102,996	5.8%	5,329	19,917	25,245
6 Insurance Tax	57,372	3.2%	1,878	1,982	3,860
Remaining	<u>356,942</u>	20.0%	<u>(9,495)</u>	<u>(15,327)</u>	<u>(24,822)</u>
Totals	\$1,785,622		\$61,877	\$75,953	\$137,829
Interest & Income (Oil & Gas Bonus Payments)			\$17.4	\$6.4	\$23,800

22

15

How Revenue Adjustments Impact Outlook

Legislative Budget - General Fund Outlook		
Figures in Millions		
	2011 Biennium	2013 Biennium
Beginning Fund Balance	\$396,334	\$343,762
Revenue		
HJ2 Revenue Estimate	3,409,703	3,638,761
Anticipated Adjustments	-	137,829
Total Funds Available	\$3,806,037	\$4,120,353
Disbursements		
General Appropriations - HB2	3,273,726	3,249,690
Statutory Appropriations	340,721	379,702
Transfers	135,516	30,020
Other Appropriations	-	4,206
Supplementals	-	29,614
Feed Bill	-	12,478
Reversions	(285,936)	(12,069)
Total Disbursements	\$3,464,027	\$3,693,641
Fund Balance Adjustments	1,752	-
Ending Fund Balance	\$343,762	\$426,712

23

15

Summary – Significant Issues



- Revenue Improvement - Stable
- Individual Income Tax
 - Withholding Growth
 - Estimated Payments
- Corporation License Tax
 - Estimated Payments
 - Audit Revenues
- Oil & Gas Revenue
 - Bakken Formation Influence
 - Lease Payments
 - Reduced Supplemental Approps.
- General Fund Balance

24



GENERAL FUND REVENUE UPDATE 2013 BIENNIUM

A Report Prepared for the
Revenue and Transportation Interim Committee

By
Terry W. Johnson
Principal Fiscal Analyst

February 17, 2012

Legislative Fiscal Division



www.leg.mt.gov/css/fiscal

INTRODUCTION

The purpose of this report is to provide the committee with general fund revenue collection data through January FY 2011 compared to January FY 2012. Future updates will provide the most recent information on general fund revenue collections as we proceed through the 2013 biennium. Most of the time, these reports will only highlight the significant revenue sources with a brief explanation of what trends may be developing. It should be noted that these reports are designed to be similar in content and structure from issue to issue so new readers will have the benefit of the historical information provided. The revenue estimates used by the 62nd Legislature to balance the budget for the 2013 biennium have been incorporated into this report.

THE BOTTOM LINE

Total general fund revenue collections through January are exceeding HJ2 revenue estimates used by the 62nd Legislature for FY 2012. As reported in the December 2011 revenue update, total general fund revenues for FY 2012 are forecast to be \$61.9 million more than anticipated in HJ2 (revenue estimating resolution) and \$76.0 million more in FY 2013. Individual income, corporation license, oil and gas production, and insurance taxes are anticipated to be higher. Vehicle fees/taxes and some smaller sources are expected to be less than anticipated in HJ2. Property taxes appear to be on track with HJ2 estimates at this time. Revenue collection data through the end of January does not indicate any significant change from the forecasts mentioned above.

GENERAL FUND REVENUE UPDATE

FISCAL 2012 REVENUE COLLECTIONS

Based on information recorded on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), total general fund receipts through January for FY 2012 were \$1,080.7 million as shown in Figure 1. This compares to \$1,009.9 million collected through January for FY 2011. This is an increase in collections from FY 2011 of \$70.8 million or a 7.0% increase. This is a significant change from the amounts as of the end of October when FY 2012 collections were well below FY 2011 collections. This change in trends was due to some of the accrual adjustments that are normally made in October not being processed until November. Individual income, corporation license, and lodging sales taxes were not adjusted in October but have subsequently been adjusted in November. These adjustments totaled over \$131 million. Instead of a decline of \$77.0 million as shown at the end of October, the more comparable amount now is an increase of \$70.8 million (7.0%) at the end of January. This is a good example of how timing, accounting processes, and other anomalies can significantly change a conclusion if a detailed analysis is not prepared.

Total general fund collections as estimated by the legislature for FY 2012 were expected to be \$3.1 million (0.17%) above the FY 2011 actual collections. These estimates were used by the 62nd Legislature and are contained in the adjusted HJ2 (revenue estimate resolution plus impacts of enacted legislation) estimates. The reason for such a small increase was because the collections received in FY 2011 were \$75.9 million more than anticipated in HJ2. This means the HJ2 estimate for FY 2012 is now compared to the actual collections received in FY 2011 versus the FY 2011 estimate used during the legislative session. Most major sources of revenue contained in HJ2 were expected to increase from FY 2011 to FY 2012. The two exceptions were vehicle fees/taxes and oil and gas production taxes. Oil and gas production collections were expected to decline because of reduced production levels while vehicle fees/taxes were expected to decline because the distribution of vehicles was expected to be weighted more heavily towards older vehicles.

Figure 1 shows revenue collection and estimate data by major revenue category. The last three columns in the figure compare collections from each revenue source to the estimate contained in HJ2. For example, corporation license tax (10th line) shows \$22.5 million in the "Difference" column. This means collections through January of this year are \$22.8 million more than the amount received through January of FY 2011 for a 43.0% difference shown in the "% Change" column. The legislature assumed collections would be down by 3.3% shown in the last column. This means collections are exceeding the legislative estimate and will surpass the HJ2 estimate if these trends continue.

Figure 1

Revenue Source	Actual Fiscal 2011	HJ2 Estimate Fiscal 2012	Through 1/31/11	Through 1/31/12	Difference	% Change	HJ2 Estimate % Change
GF0100 Drivers License Fee	3,710,998	4,173,000	2,317,899.27	2,296,547.68	(21,351.59)	-0.92%	12.45%
GF0200 Insurance Tax	57,963,581	57,372,000	24,129,403.53	24,170,459.22	41,055.69	0.17%	-1.02%
GF0300 Investment Licenses	6,922,143	6,838,000	5,835,265.08	6,046,224.48	210,959.40	3.62%	-1.22%
GF0400 Vehicle License Fee	85,762,322	91,945,000	42,870,602.76	42,579,097.81	(291,504.95)	-0.68%	7.21%
GF0500 Vehicle Registration Fee	14,814,333	14,771,000	7,202,911.11	7,704,295.88	501,384.77	6.96%	-0.29%
GF0600 Nursing Facilities Fee	5,197,229	4,876,000	2,234,450.92	1,965,955.50	(268,495.42)	-12.02%	-6.18%
GF0700 Beer Tax	2,981,809	3,239,000	1,582,715.96	1,569,199.19	(13,516.77)	-0.85%	8.63%
GF0800 Cigarette Tax	30,991,570	30,763,000	17,576,635.65	17,971,319.52	394,683.87	2.25%	-0.74%
GF0900 Coal Severance Tax	12,882,504	12,257,000	6,552,788.63	6,111,177.74	(441,610.89)	-6.74%	-4.86%
GF1000 Corporation Tax	119,043,890	115,086,000	52,353,293.00	74,874,677.38	22,521,384.38	43.02%	-3.32%
GF1100 Electrical Energy Tax	4,332,363	4,480,000	2,483,213.97	1,491,604.97	(991,609.00)	-39.93%	3.41%
GF1150 Wholesale Energy Trans Tax	3,945,547	3,738,000	2,024,000.13	980,711.81	(1,043,288.32)	-51.55%	-5.26%
GF1200 Railroad Car Tax	2,130,192	2,095,000	1,674,773.50	1,789,589.93	114,816.43	6.86%	-1.65%
GF1300 Individual Income Tax	816,089,973	809,322,000	573,979,153.67	620,492,075.39	46,512,921.72	8.10%	-0.83%
GF1400 Inheritance Tax	43,165	-	31,617.67	58,282.28	26,664.61	84.33%	-100.00%
GF1500 Metal Mines Tax	8,096,531	10,037,000	991.48	2,413.38	1,421.90	143.41%	23.97%
GF1700 Oil Severance Tax	99,763,712	102,996,000	23,061,185.87	25,507,663.44	2,446,477.57	10.61%	3.24%
GF1800 Public Contractor's Tax	6,803,285	5,716,000	6,005,664.66	(1,140,871.88)	(7,146,536.54)	-119.00%	-15.98%
GF1850 Rental Car Sales Tax	3,149,201	3,326,000	1,730,869.83	1,869,274.04	138,404.21	8.00%	5.61%
GFxxxx Property Tax	229,351,961	237,188,000	127,518,637.58	124,460,243.17	(3,058,394.41)	-2.40%	3.42%
GF2150 Lodging Facilities Sales Tax	14,240,586	13,952,000	7,145,362.72	7,523,319.33	377,956.61	5.29%	-2.03%
GF2200 Telephone Tax	-	-	-	-	-	-	-
GF2250 Retail Telecom Excise Tax	22,049,967	21,759,000	6,544,685.74	5,716,588.16	(828,097.58)	-12.65%	-1.32%
GF2300 Tobacco Tax	5,477,308	6,016,000	2,822,608.37	2,907,686.79	85,078.42	3.01%	9.83%
GF2400 Video Gaming Tax	49,824,310	52,776,000	24,547,062.08	25,115,859.15	568,797.07	2.32%	5.92%
GF2500 Wine Tax	1,993,659	2,131,000	1,053,216.30	1,126,227.91	73,011.61	6.93%	6.89%
GF2600 Institution Reimbursements	20,158,177	17,125,000	9,024,031.41	5,815,360.93	(3,208,670.48)	-35.56%	-15.05%
GF2650 Highway Patrol Fines	4,359,203	4,725,000	2,199,062.80	2,196,157.83	(2,904.97)	-0.13%	8.39%
GF2700 TCA Interest Earnings	2,518,853	6,717,000	1,343,491.31	1,195,356.95	(148,134.36)	-11.03%	166.67%
GF2900 Liquor Excise Tax	15,989,480	16,822,000	8,459,457.77	8,883,948.44	424,490.67	5.02%	5.21%
GF3000 Liquor Profits	9,000,000	9,733,000	-	-	-	-	8.14%
GF3100 Coal Trust Interest Earnings	26,783,197	27,084,000	11,586,387.77	11,066,791.50	(519,596.27)	-4.48%	1.12%
GF3300 Lottery Profits	10,611,184	10,950,000	2,251,281.00	2,369,264.00	117,983.00	5.24%	3.19%
GF3450 Tobacco Settlement	3,258,739	3,564,000	-	-	-	-	9.37%
GF3500 U.S. Mineral Leasing	31,923,308	29,400,000	14,032,275.16	14,424,152.48	391,877.32	2.79%	-7.90%
GF3600 All Other Revenue	50,393,275	42,650,000	17,727,531.11	31,555,249.14	13,827,718.03	78.00%	-15.37%
Grand Total	1,782,557,555	1,785,622,000	1,009,902,527.81	1,080,695,903.54	70,793,375.73	7.01%	0.17%

* Plus impacts of enacted legislation

DISCUSSION OF SELECTED SOURCES FOR FISCAL 2012 AND FISCAL 2013

The following section of the report addresses the six largest general fund revenue sources. These sources are individual income tax, property tax, corporation license tax, vehicle fee/tax, oil and gas production tax, and insurance tax. These sources are estimated to contribute 80.0% of total general fund revenue in FY 2012. This section of the report also includes a brief discussion on sources that are showing very unusual collection patterns. These sources are highlighted in the "Remaining Sources" category of the report. As discussed previously, individual income, corporation license, and lodging sales taxes were incorrect as of the end of October because of untimely accrual adjustments. This issue has been resolved and the revenues are now more comparable.

Individual Income Tax

Based on January accounting data, net individual income tax collections for FY 2012 (gross collections less refunds) were 8.1% above net collections for FY 2011 or an increase of \$46.5 million. The 62nd Legislature assumed that revenues would increase by 5.9% from the estimated FY 2011 amount or an increase of \$44.7 million. This increase was anticipated because the impacts of the economic recession were anticipated to be over and Montana was expected to begin a slow, modest recovery. It should be noted that actual FY 2011 collections were higher than estimated in HJ2 which means collections would have to decline from the FY 2011 amount to achieve the HJ2 estimate for FY 2012.

Figure 2 shows the accounting details through January of individual income tax collections for FY 2012 compared to the same period for FY 2011. As shown in Figure 2, individual income tax collections were \$46.5 million above the same period for FY 2011.

Since withholding tax collections are generally accepted as a proxy for total wage growth plus some non-wage income components, the 5.5% growth from last year indicates that this component of individual income tax collections is doing well when compared to last year. Withholding taxes are approximately 65% of total individual income taxes before refunds or almost 40% of total general fund revenue collections. For a summary of the results of our previous research on withholding tax collections, see the section titled “Individual Income Tax Research Results” in the December 2011 report.

Figure 2

Individual Income Tax Comparison				
Revenue Code & Description	1/31/2011 Fiscal 2011	1/31/2012 Fiscal 2012	Difference	Percent Change
510101 Withholding Tax	379,345,769.94	400,220,098.38	20,874,328.44	5.50%
510482 Mineral Royalty WH Tax	7,420,131.40	7,454,853.09	34,721.69	0.47%
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Income Tax Refunds Adjustment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	0.00%
Totals	\$573,979,153.67	\$620,492,075.39	\$46,512,921.72	8.10%
Percent of Actual/Estimated	70.33%	76.67%		

Figure 2 also shows that estimated tax payments are up \$8.6 million or 7.9% over last year at the same time. This indicates that non-wage components of individual incomes are also improving. While current year payments are up significantly (133.4%), it is too early in the tax year 2011 tax season to determine what this trend may mean. This same issue is true for refunds issued – up 17.1% over last year. Collection data through the end of April will provide a much clearer picture of the trends for these two components.

Property Tax

As shown in Figure 1, property tax collections are \$3.1 million or 2.4% below last year through the end of January. Based on information from the Department of Revenue, nine counties did not remit their January county collection report until early February. This delay resulted in \$5.7 million in property tax payments recorded as February receipts instead of January collections. The preliminary taxable value numbers from the DOR for tax year 2011 (FY 2012) show no significant change from the HJ2 revenue estimate assumptions. This means the HJ2 property tax estimate should be on track.

Corporation License Tax

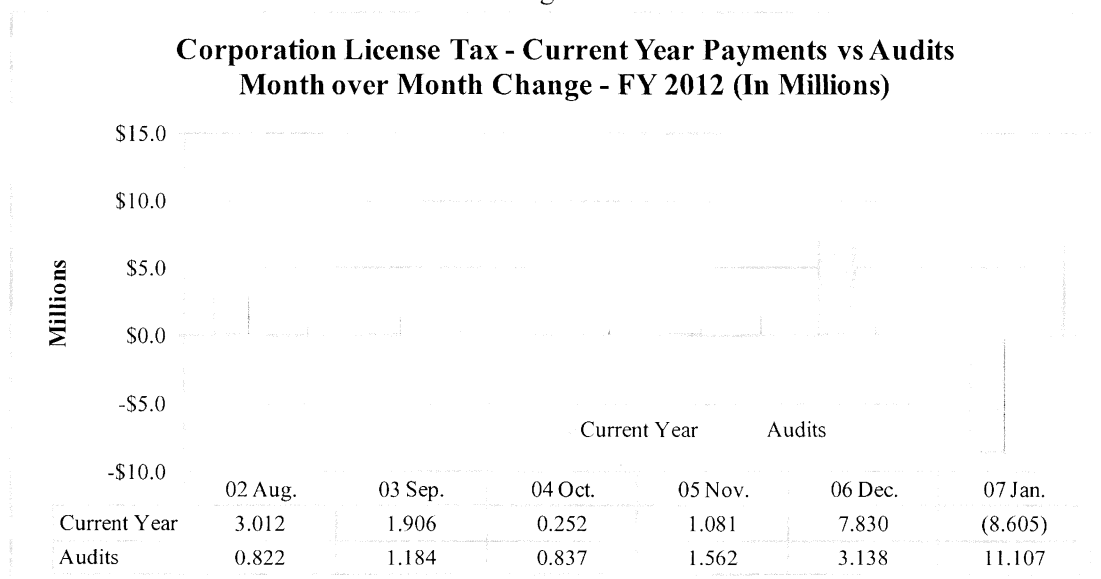
Based on January accounting data, net corporation license tax collections for FY 2012 (gross collections less refunds) were 43.0% above net collections for FY 2011 or an increase of \$22.5 million (Figure 1). The 62nd Legislature assumed that revenues would increase by 18.1% from the FY 2011 amount or an increase of \$17.7 million. This increase was anticipated because the impacts of the economic recession were anticipated to be over and corporate profitability for both state and national corporations were expected to begin a recovery. It should be noted that FY 2011 collections were higher than estimated in HJ2 which means collections would actually have to decline from the FY 2011 amount to achieve the HJ2 estimate for FY 2012.

As pointed out in previous reports, part of the strength in FY 2011 collections was explained by the auditing efforts of the DOR and the resulting unusual high audit collections. Total audit collections were \$26.1 million in FY 2011 compared to \$15.4 million in FY 2010. When audit collections are removed from FY 2010 and FY 2011 totals, then

the growth for the remaining collections are 11.9%. The growth rate assumed in HJ2 for FY 2012 was 18.2%. At this time, audit collections in FY 2012 are above last year by \$11.4 million, or 156.6%. The DOR received a significant audit payment in December that was distributed in January.

Figure 3 illustrates the accounting process DOR uses in recording corporate audit receipts. As the figure shows, corporation license tax current year payments increased by \$7.8 million in December. However, current year payments have declined by \$8.6 million in January. This is because the department records audit receipts as current year payments when the audit payment is received and then reclassifies the receipts as audit revenue usually by the middle of the following month. This means that current year payments are over stated and audit receipts are under stated until the following month. This issue is problematic for assessing year to date trends because of the differences between the volatility of audit collections and current year payments. In this situation, current year payments were showing an increase of \$7.8 million from November to December. By mid January (after the reclassification), the trend showed a decline of \$8.6 million from the December amount. Because audit payments are recorded in the "GenTax" system by taxpayer identification, the department needs adequate time to determine the details of the audit receipt and how the collections are to be distributed. This process gives the department time to do this work. Nonetheless, this is a variation that could lead to an erroneous conclusion about current year payments and audit payments without detailed research.

Figure 3



Estimated payments that were due September 15th and December 15th are \$7.2 million (14.4%) above last year. Since most corporations make quarterly estimated payments, directional change in this category can be used as an indicator of the profitability of corporations.

Figure 4

Corporation License Tax Comparison				
Revenue Code & Description	1/31/2011 Fiscal 2011	1/31/2012 Fiscal 2012	Difference	Percent Change
510501 Corporation Tax	6,703,850.37	6,750,278.49	46,428.12	0.69%
510505 Corporation Tax Estimated Paym	50,230,089.04	57,462,247.11	7,232,158.07	14.40%
510502 Corporation Tax Refunds	(11,849,832.41)	(7,988,001.22)	3,861,831.19	-32.59%
510503 Corporation Tax-Audit Collect.	7,269,186.00	18,650,153.00	11,380,967.00	156.56%
Corporation Tax Refunds Adjustment	0.00	0.00	0.00	0.00%
Totals	\$52,353,293.00	\$74,874,677.38	\$22,521,384.38	43.02%
Percent of Actual/Estimated	43.98%	65.06%		

Figure 4a shows year over year change in estimated payments from FY 2008 to FY 2012. As shown, estimated payments for FY 2011 and FY 2012 have improved when compared to FY 2010. The next payment, due on March 15th, will provide further insight on whether corporations expect their profits to improve in FY 2012 as compared to FY 2011.

Figure 4a

Vehicle Fee/Tax

As shown in Figure 5, total vehicle fees/taxes as recorded on SABHRS were \$0.2 million above last year's amount as of the end of January. Because of the economic recession and the reluctance of individuals to purchase newer vehicles, the distribution of vehicles by age group may have changed and is weighted more heavily to older age vehicles. The vehicle age distribution is relevant because light vehicle taxes are based on the age of the vehicle and not on the value (\$195 for 0 to 4 years old, \$65 for 5 to 10 years old, and \$6 over 10 years old). Therefore, the longer an individual keeps a vehicle, the taxes due will be reduced over time.

The Department of Justice (DOJ) indicated they too were seeing a slowdown in collections and that the vehicle counts for permanent registrations and older vehicles were both up slightly. This information was based on data extracted from the motor vehicle division's computer system (MERLIN). The department also verified that there were no processing delays. The good news is this trend is a slight improvement over what was observed in December. At that time, total vehicle fee/tax was down by \$0.6 million through December.

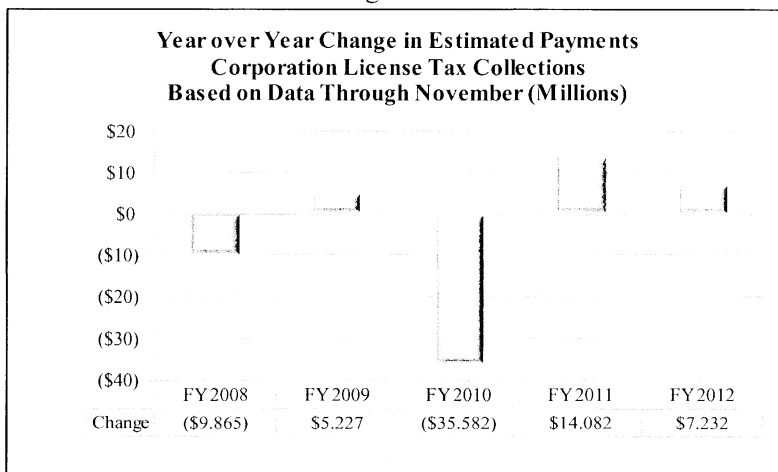


Figure 5

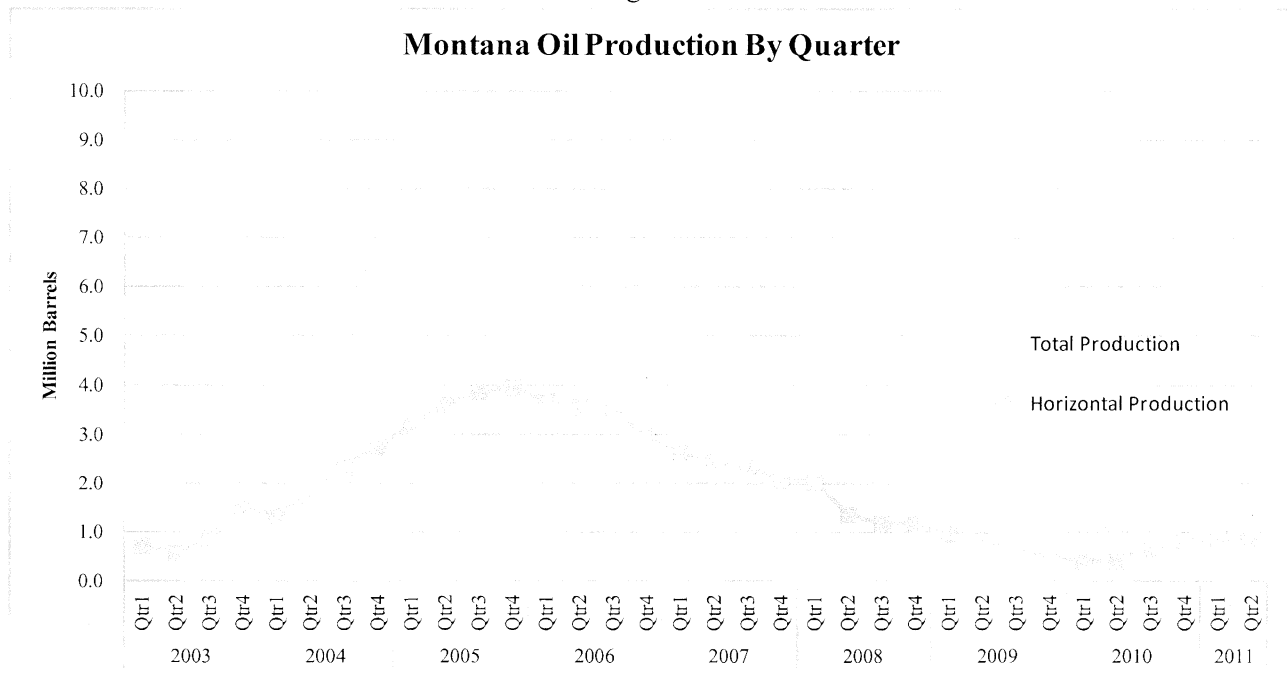
Vehicle Fee/Tax Collections and Estimates						
Revenue Category	Actual FY 2011	HJ 2 Estimate FY 2012	Through Jan. FY 2011	Through Jan. FY 2012	Dollar Change	Percent Change
Vehicle License Fee	85,762,322	91,945,000	42,870,603	42,579,098	(291,505)	-0.68%
Vehicle Registration Fee	14,814,333	14,771,000	7,202,911	7,704,296	501,385	6.96%
Total Vehicle Fees/Taxes	\$100,576,655	\$106,716,000	\$50,073,514	\$50,283,394	\$209,880	0.42%

Oil and Gas Production Tax

Oil and natural gas production taxes are one of the major sources of revenue that is extremely difficult to forecast. As shown in Figure 1, oil and gas production tax collections through January of FY 2012 are \$2.4 million or 10.6 % over the same period in FY 2011. Information from the DOR, which is extracted from oil and gas production tax returns submitted by the producers, shows that oil and gas production prices increased by \$14.18 per barrel or 18.0% from the fourth quarter of FY 2011 to the first quarter of FY 2012. Production remained stable at 5.97 million barrels, up slightly from the previous quarter of 5.94 million barrels.

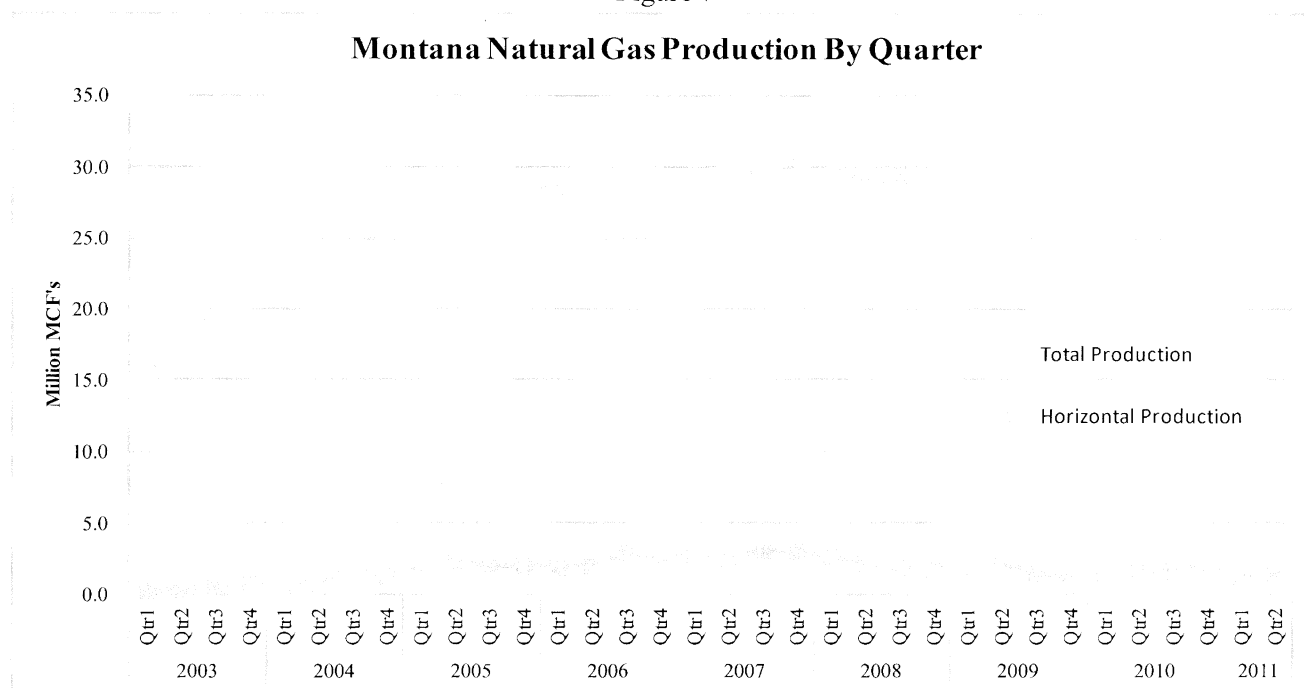
As shown in Figure 6, oil production in Montana has flattened for the last three quarters of calendar 2011 at about 5.9 million barrels per quarter. If this trend continues, the HJ2 assumption for FY 2012 oil production may be understated. The estimates contained in HJ2 were for production to be 22.3 million barrels at an average price of \$82.24 per barrel.

Figure 6



As shown in Figure 7, natural gas production in Montana continues to show a decline. If this trend continues, the HJ2 assumption for FY 2012 natural gas production may be overstated. The estimates contained in HJ2 were for production to be 102.0 million MCF's at an average price of \$3.19 per MCF. For the last two quarters production has averaged 19.6 million MCF's per quarter at an average price of \$3.56 per MCF.

Figure 7



Insurance Tax

As shown in Figure 8, insurance tax collections are up 0.17% from last year as of the end of January. Figure 8 also shows that the HJ2 estimate for FY 2012 is slightly below actual collections for FY 2011. This is not an indication that collections from this source were expected to decline but is because collections for FY 2011 were higher than estimated in HJ2 for FY 2011. This trend through January is a slight degradation from December when insurance collections were up 2.2% over last year.

Figure 8

Insurance Tax Collections and Estimates						
Revenue Category	Actual FY 2011	HJ 2 Estimate FY 2012	Through Jan. FY 2011	Through Jan. FY 2012	Dollar Change	Percent Change
Insurance Premiums Tax	\$57,963,581	\$57,372,000	24,129,403.53	24,170,459.22	\$41,056	0.17%

Remaining Sources

As shown in Figure 1, several sources of revenue are showing unusual collection patterns other than those sources previously discussed. Some of the larger sources are treasury cash account interest earnings and the public contractors gross receipts tax. These two sources are discussed below.

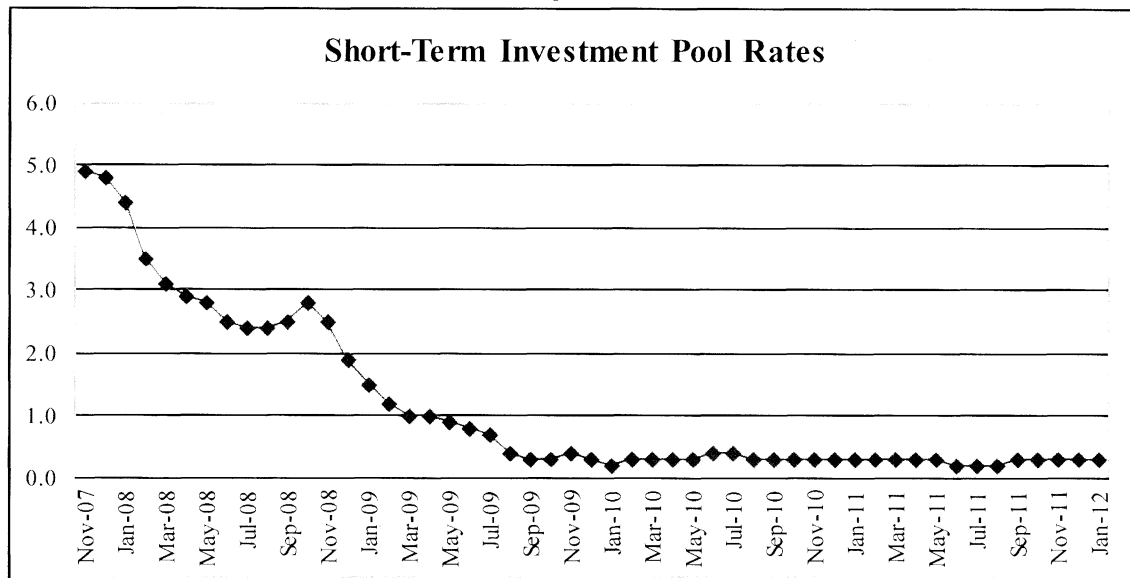
Treasury Cash Account (TCA) Interest Earnings

Based on January accounting data, TCA interest earnings for FY 2012 were 11.0% below collections for FY 2011 or a decrease of \$0.1 million. This is not a large dollar decrease but the 62nd Legislature assumed that revenues would increase by 166.7% from the FY 2011 amount or an increase of \$4.2 million. This increase was anticipated because of the higher rate of return anticipated on short-term securities.

TCA interest earnings are based on cash available for investment and the rate of return for short-term securities. Reduced earnings this year are the result of lower short-term rates and not on the investable balances. Figure 9 shows the average monthly rate of return received on the short-term investment pool (STIP) as published by the Board of

Investments since January 2007. Short-term rates have plummeted from 4.9% in January 2007 to 0.3% in September 2009 and have remained close to this level since that time.

Figure 9



Public Contractors Gross Receipts Tax

As shown in Figure 1, public contractor's gross receipts tax is showing a negative collection amount for FY 2012 of \$1.1 million. Discussions with the DOR indicate that refunds are currently being issued to Montana contractors for projects that were funded with federal stimulus monies. This refund activity is expected to occur in FY 2012 only with collections returning to a more normal trend by FY 2013.

PUBLIC SCHOOL FUNDING - INTEREST AND INCOME ADJUSTMENTS

Public schools are funded with a combination of general fund, state special (guarantee account), and federal monies. When additional revenues, above the budgeted amounts, are deposited in the guarantee account, the amount of general fund spending is reduced accordingly. One of the key components of guarantee account revenue is collections from oil and gas bonus payments. The first and second lease sales in FY 2012 produced \$10.5 million in oil and gas bonus payments. The HJ2 estimate for each year of the 2013 biennium was \$2.1 million. This means that bonus payments after two sales in FY 2012 are already \$6.3 million more than anticipated for the entire biennium.

Based on discussions with staff from the Department of Natural Resources, state lands to be leased are nominated by prospective producers or speculators for a lease auction. This limits our ability to determine the potential revenue from bonus payments. The renewed interest in the Bakken formation in eastern Montana may continue to produce high lease sales in forthcoming auctions.

Our office will continue to monitor these issues further as well as any new issues before the next report is issued.

SUMMARY

Total general fund revenue collections through January are exceeding HJ2 revenue estimates used by the 62nd Legislature for FY 2012. Since January collection data does not indicate any significant change from our December forecast, Figure 10 shows the December forecasts. Total general fund revenues for FY 2012 are forecast to be \$61.9 million more than anticipated by the 62nd Legislature and \$76.0 million more in FY 2013. Individual income, corporation license, oil and gas production, and insurance taxes are anticipated to be higher. Vehicle fees/taxes and some smaller sources are expected to be less than anticipated in HJ2. Property taxes appear to be on track with HJ2 estimates at this time.

Figure 10

2013 Biennium General Fund Revenue Estimates Anticipated Revenue Adjustments - In Millions					
Tax Source	FY 2012 HJ2 Estimate	% of Total	Adjustment FY 2012	Adjustment FY 2013	Adjustment 2013 Biennium
1 Individual Income Tax	\$809.322	45.3%	\$56.861	\$60.411	\$117.272
2 Property Tax	237.188	13.3%	No Chg.	No Chg.	No Chg.
3 Corporation License Tax	115.086	6.5%	15.079	16.777	31.856
4 Vehicle Fee/Tax	106.716	6.0%	(7.775)	(7.807)	(15.582)
5 Oil & Gas Production Tax	102.996	5.8%	5.329	19.917	25.245
6 Insurance Tax	57.372	3.2%	1.878	1.982	3.860
Remaining	<u>356.942</u>	20.0%	<u>(9.495)</u>	<u>(15.327)</u>	<u>(24.822)</u>
Totals	\$1,785.622		\$61.877	\$75.953	\$137.829

As shown in Figure 10, the potential 2013 biennium revenue adjustment is \$137.8 million. This represents a 3.8% upward adjustment to the revenue estimates contained in HJ2. The 62nd Legislature budgeted for an ending fund balance of \$150.4 million by the end of the 2013 biennium. Figure 11 shows the general fund balance sheet that incorporates the preliminary FY 2011 amounts and the anticipated revenue improvements as discussed in December. The December projected balance of \$426.7 million includes the anticipated supplemental appropriations of \$29.6 million for public schools. The supplemental appropriation amount has been decreased from the post-session estimate because of the potential additional revenue collections from interest and income bonus payments.

Figure 11

Legislative Budget - General Fund Outlook						
Figures in Millions						
	Actual FY 2010	Preliminary FY 2011	Estimated FY 2012	Estimated FY 2013	2011 Biennium	2013 Biennium
Beginning Fund Balance	\$396.334	\$314.880	\$343.762	\$382.887	\$396.334	\$343.762
Revenue						
HJ2 Revenue Estimate	1,627.145	1,782.559	1,785.623	1,853.138	3,409.703	3,638.761
Anticipated Adjustments			61.877	75.953	-	137.829
Total Funds Available	\$2,023.478	\$2,097.439	\$2,191.262	\$2,311.978	\$3,806.037	\$4,120.353
Disbursements						
General Appropriations - HB2	1,575.921	1,697.805	1,601.307	1,648.383	3,273.726	3,249.690
Statutory Appropriations	169.872	170.849	184.532	195.170	340.721	379.702
Transfers	88.877	46.639	17.122	12.898	135.516	30.020
Other Appropriations	-	-	2.384	1.822	-	4.206
Supplementals	-	-	5.944	23.670	-	29.614
Feed Bill	-	-	2.469	10.009	-	12.478
Reversions	(117.960)	(167.976)	(5.383)	(6.686)	(285.936)	(12.069)
Total Disbursements	\$1,716.710	\$1,747.317	\$1,808.375	\$1,885.266	\$3,464.027	\$3,693.641
Fund Balance Adjustments	8.112	(6.360)	-	-	1.752	-
Ending Fund Balance	\$314.880	\$343.762	\$382.887	\$426.712	\$343.762	\$426.712

The projected balance of \$426.7 million is a total improvement of \$276.3 million as compared to the 62nd Legislature budgeted balance. This projected balance is 11.6% of biennium disbursements.

Attachment 1 shows a variety of important economic and revenue indicators for Montana. For example, pertinent price and production statistics for Montana's natural resource industry (oil, coal, and natural gas) are shown for the last completed two years. For each statistic shown, the data source, measurement unit, whether the information is by

calendar or fiscal year, an amount for 2010 and 2011, change amount, and percentage change is provided. The purpose of this information is to provide the reader with some relevant data on Montana's economic climate.

Attachment 1 – Economic and Revenue Indicators

Group	Statistic	Source*	Unit	Year Type	2010	2011	Change Amount	Percent Change
General Economy Indicators								
	MT Wage and Salary Income (Q ₁₋₂ to Q ₁₋₂)	BEA	Dollars	Calendar	\$15,656,000	\$16,031,000	\$375,000	2.40%
	MT Non-Farm Employment (Q3 ₂₀₁₀ to Q3 ₂₀₁₁)	DOL	Count	Calendar	428,500	434,767	6,267	1.46%
	US Consumer Price Index (Q3 ₂₀₁₀ to Q3 ₂₀₁₁)	DOL	Index	Calendar	218.0	226.2	8.2	3.76%
	MT Housing Starts (SAAR) (Q ₁₋₃ to Q ₁₋₃)	IHS	Count	Calendar	1,330	1,280	(50)	-3.76%
	MT Existing Home Sales (Q2 ₂₀₁₀ to Q2 ₂₀₁₁)	IHS	Count	Calendar	23,200	20,000	(3,200)	-13.79%
	MT Agricultural Cash Receipts (2009 to 2010)	BEA	Dollars	Calendar	\$2,831,196,000	\$3,162,545,000	\$331,349,000	11.70%
	MT Statewide Taxable Values (2010 to 2011)	DOR	Dollars	Fiscal	\$2,234,603,497	\$2,325,021,202	\$90,417,706	4.05%
	MT Short-Term Investment Pool (STIP) Rate	BOI	Percent	Fiscal	0.34%	0.31%	-0.03%	-8.82%
Natural Resources								
	Montana Oil Production (Taxable)	DOR	Barrels	Fiscal	26,211,799	24,707,503	(\$1,504,296)	-5.74%
	Montana Oil Wellhead Price	DOR	\$/s/Barrel	Fiscal	\$65.27	\$80.61	\$15.34	23.50%
	Montana Coal Production (Taxable)	DOR	Tons	Fiscal	34,714,320	36,318,866	1,604,547	4.62%
	Montana Coal Price (Contract Price)	DOR	\$/s/Ton	Fiscal	\$9.78	\$10.92	\$1.14	11.66%
	Montana Coal Price (Free on Board)	DOR	\$/s/Ton	Fiscal	\$13.66	\$15.03	\$1.37	10.03%
	Montana Natural Gas Production (Taxable)	DOR	MCF's	Fiscal	98,561,962	84,007,213	(\$14,554,749)	-14.77%
	Montana Natural Gas Wellhead Price	DOR	\$/s/MCF	Fiscal	\$3.24	\$3.38	\$0.14	4.32%
Consumption								
	Cigarettes Sold (Taxable)	DOR	Packs	Fiscal	46,158,900	44,946,750	(1,212,150)	-2.63%
	Other Tobacco Products (Value)	DOR	Dollars	Fiscal	6,964,334	6,631,728	(\$332,607)	-4.78%
	Other Tobacco Products (Roll)	DOR	Ounces	Fiscal	849,398	535,514	(313,884)	-36.95%
	Other Tobacco Products (Moist)	DOR	Ounces	Fiscal	9,452,007	9,923,938	471,931	4.99%
	Lottery Ticket Sales	SABHRS	Dollars	Fiscal	\$45,192,762	\$46,035,297	\$842,535	1.86%
	Video Gaming Net Income	Computed	Dollars	Fiscal	\$349,306,657	\$332,162,069	(\$17,144,588)	-4.91%
	Liquor Sales	DOR	Dollars	Fiscal	\$90,117,585	\$92,955,786	\$2,838,201	3.15%
	Beer Produced/Imported	DOR	Barrels	Fiscal	969,379	951,728	(17,651)	-1.82%
	Wine Imports	DOR	Liters	Fiscal	10,574,996	11,103,984	528,988	5.00%
	Rental Vehicle Sales (Taxable)	DOR	Dollars	Fiscal	\$73,278,756	\$81,696,925	\$8,418,169	11.49%
	Lodging Facility Sales (Taxable)	DOR	Dollars	Fiscal	\$438,052,856	\$481,639,618	\$43,586,762	9.95%
	Gasoline Gallons (Taxable)	DOT	Gallons	Fiscal	492,223,774	498,312,840	6,089,066	1.24%
	Diesel Gallons (Taxable)	DOT	Gallons	Fiscal	252,134,082	268,209,992	16,075,910	6.38%
Source *								
BEA - US Department of Commerce, Bureau of Economic Analysis								
DOL - Montana Department of Labor and Industry								
IHS - IHS Global Insight								
BOI - Board of Investments								
LFD - Legislative Fiscal Division								
DOR - Montana Department of Revenue								
SABHRS - Statewide Accounting, Budgeting, Human Resource System								
Computed - Computed using collections and tax rate								
DOT - Montana Department of Transportation								